

Amendment to Rep. Lazio's Fee Reduction Bill

The proposed amendment to H.R. 2441, Rep. Lazio's fee reduction bill, does little to address the significant issues identified by the SEC in its testimony before the Finance Subcommittee in late September 1999 and its follow-up letter to Ranking Member Towns dated October 6, 1999.

First, the bill as proposed to be amended continues to have the same fundamental problem identified by the SEC -- it attempts to achieve a dramatic reduction in fee collections by targeting only offsetting collections. As the SEC pointed out in its testimony and in its letter, offsetting collections are crucial to full and stable long-term funding for the SEC because they are used by the SEC's appropriators to fund SEC operations. The following chart shows the dramatic effect the amended bill would have on the SEC's offsetting collections:

**COMPARISON OF ESTIMATED OFFSETTING COLLECTIONS AVAILABLE
FOR SEC FUNDING UNDER CURRENT LAW AND
H.R. 2441 AS PROPOSED TO BE AMENDED¹**

(\$ in millions)

Fiscal year	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Offsetting Collections under Current Law Available to Fund the SEC	688	780	897	1,014	1,222	1,439
Offsetting Collections under H.R. 2441 as Amended Available to Fund the SEC	287	293	307	303	367	432

As the chart shows, the amended bill would reduce offsetting collections to approximately \$287 million in fiscal 2001. The SEC's budget request for fiscal 2001 is \$423 million. This means that the bill would provide \$136 million less in offsetting collections in fiscal 2001 than necessary to fully fund the agency.

At the same time, the amended bill makes no attempt to reduce the general revenue portion of fee collections, which represents approximately 70 percent of total fee collections. The general revenue portion, which CBO projects to be more than \$1.3 billion in fiscal 2001, is used to fund government programs unrelated to the SEC's mission.

Second, the proposed amendment actually increases the risk that the SEC will face a funding shortfall by giving general revenue first claim on any fee collections. Under the amendment, general revenue is credited with all fee collections until a general revenue cap is reached. Any collections over the general revenue cap go to offsetting collections. This provision has the effect of shifting the risk of any collection shortfall to offsetting collections. The SEC would thus bear the brunt of any shortfall, exposing the SEC to the possibility of an emergency budget situation that could severely impact its operations. In addition, giving general

¹Based on CBO's December 1999 Baseline.

revenue first priority would likely have the effect of reducing offsetting collections even more than the chart above indicates by altering the economic model CBO uses to estimate offsetting collections. CBO should be consulted for revised projections.

Third, the amendment makes no attempt to address inadequacies in the funding shortfall provision or potential SEC cash flow issues. The SEC addressed each of these issues in its September testimony and its October letter.